

Texas House of Representatives  
Committee on Public Health  
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Testimony of Michael C. Zucker, Chief Development Officer  
Vanguard Health Systems, South Texas Region

Madam Chair, members of the Committee, Thank you for the opportunity to testify today. My name is Michael Zucker and I am the Chief Development Officer for Vanguard Health Systems South Texas Region, which includes the Baptist Health System in San Antonio, Valley Baptist-Brownsville, and Valley Baptist-Harlingen.

Our hospitals operate in areas with a high population of low income and needy patients. Both San Antonio---where Baptist Health System operates----and the Rio Grande Valley---where both our Valley Baptist Hospitals operate---have a high population of both Medicaid and uninsured patients, that necessitate Medicaid supplemental funding to support the provision of safety net hospital care for this population. We are very concerned about how proposed rule changes will significantly reduce Medicaid DSH reimbursements for private hospitals in Texas. For Vanguard's hospitals in particular, the expected reductions are almost \$20 million per year. The Baptist Health System simply cannot absorb this reduction and continue to serve the Medicaid and uninsured at the same levels.

The proposed Medicaid DSH reimbursement change comes at a particularly inopportune time considering the large reimbursement reductions experienced by hospitals over the past year. These reductions include, among others, an 8% reduction in the Medicaid standardized dollar amount and a 40% reduction in reimbursement for Medicaid patients presenting in hospital emergency rooms without an emergent condition. These reductions for privately owned hospitals, where the majority of Medicaid patients and the uninsured receive treatment, result in their receiving a little more than 50% of cost for inpatient services to Medicaid patients.

**Compounding the impact of these rate cuts, private hospitals are preparing to experience cuts of 50-70% to their Medicaid supplemental funding through the Medicaid UPL program due to the implementation of the State's Medicaid Section 1115 Waiver.**

These funds helped to offset the uncompensated cost of care created by the state's limited Medicaid funding and the growing, uninsured population. Imposing additional reductions to Medicaid DSH reimbursements for hospitals that, by definition, serve a disproportionate share of low-income patients will likely cause significant disruptions in the volume and/or types of services these hospitals can provide.

Vanguard Health Systems and our family of Baptist Health System hospitals are committed to working towards solutions to address the underfunding of care in our state. Private hospitals, both for-profit, and non-for-profit, are providing the majority of the care to Medicaid patients and are integral to the state's safety net. To that point:

- Private hospitals provide 84% of the hospital care to patients in Texas Medicaid
- Private hospitals provide one-half of the uncompensated care in Texas

The State has been clear that its intent in negotiating the 1115 Waiver with the Centers for Medicare and Medicaid Services (CMS) was to benefit all (both public and private) major safety-net hospitals in Texas, and not to reallocate Medicaid funding from care provided by private hospitals to public hospitals disproportionately.

The Medicaid Waiver is profoundly tilted towards public hospitals---the waiver contains incentives for public hospitals to take funding previously distributed to private hospitals and redirect to themselves. These funds are vital for private hospitals to remain viable.

This said, the point that I wish to impress upon the committee is that private hospitals are about to face unprecedented financial challenges under Medicaid. In addition to covering 84% of the patients seen in hospitals, private hospitals are reimbursed differently than other segments of the hospital industry. Public hospitals receive tax support. Children's and Rural Hospitals continue to receive cost-based reimbursement.

The private hospital community is very concerned that collaborative solutions to funding DSH after the current fiscal year have yet to be defined. DSH was created to supplement the state's Medicaid program and it has met its intended purpose for 20 years. Since its inception as a private –public partnership, Texas has always maximized the potential of the DSH program and in 2011 provided roughly \$600 million to help more than a hundred private hospitals in Texas defray the costs of care to these patients. Unfortunately, the most recent public pronouncements about DSH would actually leave \$170 million on the table for FY 2012. We were disappointed to hear that DSH would be underfunded for the first time in the program's history.

Furthermore, our concern is that the Medicaid Waiver, originally promoted as an opportunity to supplement Medicaid hospital providers, has enticed public hospitals, *or perhaps said differently*, removed the financial incentives for the nine urban public hospital districts to IGT funds to continue to fund the DSH program.

**The challenges imposed upon our policy makers and public hospital partners are very real, but private hospitals are viewing DSH and, ultimately, the Waiver as a substantial redistribution of funds and puts us on a path to an unsustainable financial position on Medicaid.**

Baptist Health System along with the other private hospitals and health systems in this state are ready to do our part, but we want to work collaboratively towards a solution.

Thank you for the opportunity to share with you our concerns and I'm happy to answer any questions.